

H. Carl McCall  
Comptroller

State of New York  
Office of the State Comptroller

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# Town of Milan

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## **Report of Examination**

**2000M-13**

Division of Municipal Affairs

**TO THE SUPERVISOR AND MEMBERS  
OF THE TOWN BOARD  
OF THE TOWN OF MILAN,  
COUNTY OF DUTCHESS, NEW YORK:**

Among my top priorities as the State Comptroller is to maintain a strong partnership between my office and the local governments of New York State. One of the main objectives of this partnership is to assist local governments in improving their financial condition and strengthening their financial management systems.

The audit reports issued by my office are an important component in accomplishing this objective. These reports are expected to be a resource to you. They are designed to identify current and emerging fiscal problems and provide recommendations for improvement.

Prudent fiscal management, sound fiscal policy and a commitment to working together will enable us to serve the taxpayers more effectively by making better use of our limited resources. Toward this end, I look forward to working with your municipality and all other local governments throughout the State.

To make our audit report more useful and understandable, it now includes:

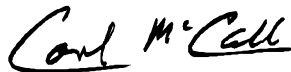
Table of contents;

Executive summary to highlight recommendations; and

Headings that separate Findings and Recommendations.

If my office can be of assistance to you or if you have any questions concerning this audit report, please feel free to contact the local area office for your county listed at the back of this report.

Sincerely,

A handwritten signature in black ink that reads "Carl McCall". The signature is written in a cursive, flowing style.

H. Carl McCall

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## EXECUTIVE SUMMARY

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Our examination disclosed findings which should be reviewed by the Town Board for appropriate action. Good management practices require that town officials take prompt action concerning our recommendations. We believe prompt action by town officials will help improve the town's financial operations, protect the town's resources from possible loss or improper use, and ensure its compliance with appropriate statutory requirements. For the ready reference of the reader, the recommendations are summarized in the following section. However, this is not meant to serve as a substitute for reviewing the Findings and Recommendations section of the report, which begins on page 7. Please note that of the six findings in this report, two findings are similar to those contained in our prior Report of Examination issued November 17, 1995.

The Town Board should prepare a plan of action that addresses our recommendations and forward the plan to our office within ninety days. For guidance in preparing the plan of action, you may refer to applicable sections contained in the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

We are available to assist you in providing guidance in preparing the plan. The local area office for your county is listed in the back of this report.

## SUMMARY OF RECOMMENDATIONS

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### Financial Condition

The following recommendation relates to the town's financial condition. Failure to properly implement the recommendation could unnecessarily burden current taxpayers who may provide funding in excess of amounts needed to provide current services and fund authorized reserves.

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#### **Unappropriated Fund Balance** *(For Full Discussion See Commentary, Page 7)*

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The Town Board should review its budgeting practices and adopt more realistic budgets to ensure that it does not carry excessive unreserved fund balances from year to year.

## **Internal Control and Compliance**

An effective system of internal control is necessary so that the Town Board can have reasonable assurance that resources are safeguarded and that transactions are executed in accordance with management's authorization, are in accordance with statutory requirements and are properly recorded.

Failure to establish proper controls could expose the town's resources to loss or improper use. The following recommendations help ensure that the town's resources are not at risk and that transactions are properly authorized and are in compliance with statutory requirements.

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### **Budget Format** *(For Full Discussion See Commentary, Page 8)*

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The Town Board should take the necessary corrective action, giving full consideration to the Town Law.

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### **Claims Processing** *(For Full Discussion See Commentary, Page 8)*

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For purposes of good internal control and compliance with statute, the Town Board should take the necessary corrective action to ensure that claims are properly processed prior to actual payment.

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### **Competitive Bidding** *(For Full Discussion See Commentary, Page 9)*

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The Town Board should follow competitive bidding provisions to help assure the prudent and economic use of public moneys and to facilitate the acquisition of goods and services of desired quality at the lowest cost.

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### **Repurchase Agreements** *(For Full Discussion See Commentary, Page 10)*

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The Town Board should review the town's investment in repurchase agreements to ensure that town moneys are invested and properly safeguarded in accordance with General Municipal Law.

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### **Fixed Assets** *(For Full Discussion See Commentary, Page 11)*

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The Town Board should take appropriate action to ensure that fixed asset records are established and maintained and that physical inventories are periodically taken and reconciled with these records.

**Report: 2000M-13**  
**Filed: February 18, 2000**

<b>AUTHORITY AND SCOPE LETTER</b>
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**TO THE SUPERVISOR AND MEMBERS  
OF THE TOWN BOARD  
OF THE TOWN OF MILAN,  
COUNTY OF DUTCHESS, NEW YORK:**

Pursuant to the State Constitution, Article V, §1 and further authority vested in the State Comptroller by Article 3 of the General Municipal Law, we have examined the financial affairs of the Town of Milan.

Our responsibilities are to review the financial condition and fiscal operations of the town in order to identify areas needing improvement and to inform local officials and the public of our findings and recommendations. Consistent with these responsibilities, the objectives of this examination were to identify conditions indicating possible fiscal stress and to test for noncompliance with certain finance related statutory and regulatory provisions as well as guidance of the Office of the State Comptroller. It was not our objective to, and we do not, express an Audit Opinion on the financial statements of the town or provide assurance as to either its internal control structure or the extent of its compliance with statutory and regulatory requirements as well as guidance of the Office of the State Comptroller.

The management of the town is responsible for its financial affairs and for safeguarding its resources. This responsibility includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that resources are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and are properly recorded; that appropriate financial reports are prepared; that applicable laws, rules and regulations are observed; and that appropriate corrective action is taken in response to audit findings. Nevertheless, errors, irregularities, or instances of noncompliance may occur and not be detected because of inherent limitations in any internal control structure.

In determining the scope of our examination, we conducted an initial audit survey for the town's fiscal operation for the period January 1, 1998 through September 23, 1999. We obtained an overview of the operations through inquiry, analytical procedures, observations and the inspection of records and reports. In this process, we considered the town's financial condition, its internal controls, applicable statutory provisions, guidance of the Office of the State Comptroller and other relevant information. As a result of this planning process, we limited our examination to the following areas:

Financial Condition  
Cash Management/Deposits and Investments  
Claims Processing  
Retirement Reporting

We conducted our examination in accordance with Generally Accepted Government Auditing Standards (Government Auditing Standards, issued by the Comptroller General of the United States). For the areas selected, we gained an understanding of the town's internal control structure. Based upon this understanding, we assessed risks and designed and performed such tests which we considered necessary to satisfy our audit objectives. The period covered by our procedures is noted in each of the findings contained in the Findings and Recommendation section of this report. We believe that our examination provides a reasonable basis for our report.

The results of our examination procedures disclosed certain findings and recommendations which are presented in this Report of Examination. These findings and recommendations have been discussed with local officials and their comments have been considered in preparing this report.

The Town Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Town Board should prepare a plan of action that addresses the recommendations in this report. We encourage the Town Board to prepare a corrective action plan which would be available for public review in the town clerk's office and the Office of the State Comptroller.

Very truly yours,

***Office of the State Comptroller***

OFFICE OF THE STATE COMPTROLLER  
DIVISION OF MUNICIPAL AFFAIRS

**Albany, New York  
November 19, 1999**

## FINDINGS AND RECOMMENDATIONS

### Financial Condition

#### Unappropriated Fund Balance

##### *Finding*

The town's annual financial report for the fiscal year ended December 31, 1998 showed that a significant unreserved, unappropriated fund balance has accumulated in the general fund.

A comparison of the unreserved, unappropriated fund balance with the amount appropriated in the ensuing year's budget for the general fund is as follows:

Unreserved Fund Balance at December 31, 1998	Appropriated in the 1999 Budget	Unappropriated Unreserved Fund Fund Balance at December 31, 1998	Unappropriated Balance as a % of the 1999 Budget
\$259,215	\$75,000	\$184,215	48%

The cause of the accumulation and retention of this excess fund balance has been the underestimation of revenues and the lack of appropriating sufficient amounts of available fund balance when preparing the annual budget. For instance, general fund revenues (primarily state aid and fines and forfeitures), were underestimated by a total of \$203,052, in the 1998 budget.

A budget, which in effect acts as a control over the financial operations of the town, should be an accurate document which parallels the expected operations of the respective funds. Furthermore, prudent fiscal management requires that only those amounts necessary to meet the current fiscal needs of the town be raised by taxation.

##### *Recommendation*

**The Town Board should review its budgeting practices and adopt more realistic budgets to ensure that it does not carry excessive unreserved fund balances from year to year.** Revenues, expenditures, and available fund balance should be estimated based on such factors as prior financial activity and expected operations of the ensuing year. Careful projections should be made to ensure that real property taxes are not raised in amounts greater than necessary to provide anticipated services. As an alternative, or in addition to the foregoing, surplus money could be appropriated and transferred to duly established reserve funds.



## Internal control and Compliance

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### Budget Format

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#### ***Finding***

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Although the 1998 and 1999 adopted budgets included budgetary comparisons of previous years, they did not contain comparative information, showing actual revenues and expenditures of the last completed fiscal year.

The town budget should be prepared in the format recommended by the State Comptroller (Town Law, §107). In addition, the presentation of actual revenues and expenditures of the last completed fiscal year in the budget is intended to ensure the availability of this information to town officials and residents when the budget is reviewed. This information is essential if budget requests are to be evaluated against prior year operations.

A similar finding appeared in our prior Report of Examination.

#### ***Recommendation***

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The Town Board should take the necessary corrective action, giving full consideration to the Town Law. For guidance in this area, we recommend that the Town Board refer to Section 1 of the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

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### Claims Processing

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#### ***Finding***

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The town lacks adequate control over the processing and payment of claims.

In order to test for procedural controls over the verification and approval of claims, we judgementally selected and tested twenty-three claims representing approximately 6% of all claims paid during the period January 1, 1999 through August 31, 1999. Our tests disclosed the following deficiencies:

Twenty of the claims tested, involved the purchase of goods and services. However, in four instances, the supporting documentation attached to the claim was not signed by a town officer or employee acknowledging receipt of goods and services. For example, delivery slips, attached to one claim totaling \$1,504, for vehicle parts, were not signed to allow for a proper audit. Delivery slips and invoices should be signed as evidence to the Town Board when reviewing claims for payment that goods and services have been received.

One of the claims tested, totaling \$65,346 for road materials, did not have supporting documentation attached, such as delivery slips or invoices. For improved control of town purchases, delivery slips and invoices should be attached to vouchers and signed as evidence to the Town Board when reviewing vouchers for payment, that goods and services have been received.

Nine paid claims had purchase orders attached that were dated after the purchase date on the invoice. For example, one claim totaling \$1,721, had a purchase order certified and dated February 1, 1999 indicating available appropriations. However, the invoice indicated that the items were purchased on January 14, 1999. Additionally, three claims did not have purchase orders attached. The inherent benefits of a purchase order system, such as verification of appropriations prior to the actual purchase, can only be derived if purchase orders are properly utilized.

Three claims for utilities were paid without audit and approval by the Town Board. For example, one claim, totaling \$159 for electric service, was paid without board audit and approval. Town Law, §118 provides that the Town Board may by resolution authorize payment in advance of audit, claims for public utility services, postage, freight and express charges. However, all such claims shall be presented at the next regular meeting for audit.

### ***Recommendation***

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**For purposes of good internal control and compliance with statute, the Town Board should take the necessary corrective action to ensure that claims are properly processed prior to actual payment.**

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## **Competitive Bidding**

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### ***Finding***

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The town did not solicit competitive bids for the purchase of a grader.

During the period June 11, 1998 through August 10, 1998, the town rented a grader for use by the highway department, at a total cost of \$10,000. Subsequently, in August 1998, the town purchased the grader for \$10,500. No record was presented to indicate that bids had been requested by public advertisement for the purchase of a grader.

With certain exceptions, which appear not to be applicable in the above instance, all purchase contracts in excess of \$10,000 shall be awarded to the lowest responsible bidder after public advertisement for sealed bids (General Municipal Law, §103).

### ***Recommendation***

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**The Town Board should follow competitive bidding provisions to help assure the prudent and economic use of public moneys and to facilitate the acquisition of goods and services of desired quality at the lowest cost.**

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## Repurchase Agreements

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### ***Finding***

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The town did not adequately safeguard its assets that were invested in repurchase agreements.

In January 1999, the town supervisor entered into an agreement with a company associated with the town's depository, with regard to repurchase agreements. This agreement established an agency relationship with the town, whereby the company executes repurchase transactions as agent for the town. This was the only agreement pertaining to repurchase agreements on file with the town. In addition, the repurchase transactions are initiated by the town's depository bank through "sweep" transfers from the town's bank accounts to investment accounts with the trust and investment department of the town's depository.

Repurchase agreements are not deposits and therefore are not insured by the Federal Deposit Insurance Corporation or otherwise secured by pledged collateral. Repurchase agreements are investment transactions in which the town purchases securities from a trading partner and simultaneously agrees to resell them and the trading partner agrees to repurchase them at an agreed future date and at an agreed price. At September 30, 1999, the town had \$621,561 invested in repurchase agreements. This represents a significant amount of money invested in transactions which, if not properly managed and safeguarded, can expose the town to greater risks than investing in other available investments.

There was no evidence that the town had on file a copy of a master repurchase agreement between the town and the trading partner. A master repurchase agreement should be entered into between the purchaser and the seller, which outlines basic responsibilities and liabilities of both buyer and seller. In addition, there was no evidence that the town had on file a copy of a custodial agreement with a custodian bank. A custodial agreement outlines the basic responsibilities and liabilities of the purchaser, the seller and the custodian with regard to the safekeeping of securities. In effect, the town did not have evidence on file that the town had perfected a security interest by taking possession of the purchased securities, or by having a third party custodial bank take possession, either physically or by transfer by book entry on the federal reserve system.

To properly authorize a repurchase transaction, a town officer must approve a specific dollar amount to be invested subject to a repurchase agreement, rather than allowing the depository bank or agent to determine the amount of the investment.

### ***Recommendation***

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**The Town Board should review the town's investment in repurchase agreements to ensure that town moneys are invested and properly safeguarded in accordance with General Municipal Law.** For guidance in this area, the Town Board should refer to Section 2 of the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

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## **Fixed Assets**

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### ***Finding***

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The town does not maintain adequate control over its fixed assets.

As of September 1999, except for the highway department, the town did not maintain an inventory of fixed assets. Every local governmental unit should have an inventory of fixed assets. Property record cards should be maintained and include, as a minimum, the type and description of assets: land, buildings, machinery and equipment; identification numbers, date acquired, cost and source of funding.

The objectives of maintaining an inventory of fixed assets are to:

Create a system to safe guard assets.

Determine the adequacy of insurance protection.

Provide a means of planning for future replacement.

Periodic physical inventories should be taken and compared to fixed asset records. Any discrepancies should be investigated and the records adjusted, where necessary. Procedures should be established to provide for additions and deletions to the records.

A similar finding appeared in our prior Report of Examination.

### ***Recommendation***

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**The Town Board should take appropriate action to ensure that fixed asset records are established and maintained and that physical inventories are periodically taken and reconciled with these records.** For guidance in this area, we recommend that the Town Board refer to Section 3 of the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

# APPENDIX

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